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RUEHTV/AMEMBASSY TEL AVIV 0104  
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SUBJECT: TURKEY'S ELECTRICITY EXPORTS TO IRAQ

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B) 05 ANKARA 5310

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Sensitive But Unclassified. Please handle accordingly.

11. (SBU) SUMMARY: Turkey has sought to increase electricity linkages with all its neighbors, including Iraq, but is committed to joining the EU electricity grid (UCTE), so faces technical constraints on connections to non UCTE countries. The recent Turkey-Iraq Joint Economic Commission identified a shared desire to increase electricity transfer from Turkey to Iraq and agreed to improve the transmission line infrastructure between the two countries. The Turkish transmission company TEIAS has plans to make investment in increased transmission capacity. Meanwhile, Turkish Kartet Company (Karadeniz Holding) has long sought to increase electricity exports from Turkey to northern Iraq from existing 250 MW to 1200 MW, citing that it is the sole company with generation capacity and a contract with the Government of Iraq. Kartet complains that its current activities and expansion plans have been blocked by Turkish energy regulator EMRA, which has called for competition, but has been unable to stir up competitors or organize a tender. There are growing concerns about electricity shortfall in Turkey, so there may be reduced potential for and interest in exports. End Summary.

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Existing Exporter - Kartet  
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¶2. (SBU) Presently exporting 200-250 MW of electricity from its Silopi plant in Turkey to northern Iraq, Kartet Company has sought to increase its exports to 1200 MW to provide badly needed additional electricity in Iraq (refs). Current electricity exports are sent to an "island" in northern Iraq and the electricity is partially paid for by shipments of heavy fuel oil to fire the power plant. Both Kartet's existing and incremental licenses have been held up by the Turkish energy regulator EMRA for over one year on the grounds that there should be a competitive tender for allocation of transmission capacity from the Turkish grid (State company TEIAS). Kartet has won a court order to force EMRA to process its licenses (under then-existing, more favorable law), but EMRA has refused to implement the decision. The Turkish MFA and Ministry of Energy (MENR) are supportive of Kartet's project, but have recognized the value of competition. Kartet argues that there are no realistic competitors and Kartet is the only company with an exclusive contract with the Government of Iraq for provision of electricity from Turkey.

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JEC  
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¶3. The November 15-16 Turkish-Iraqi Joint Economic Committee (JEC) for Economic and Technical Cooperation identified electricity as one of a number of energy related areas to target increased cooperation.

Recognizing the urgent need for the increase of electricity transfer from Turkey to Iraq, both sides agreed to improve transmission line infrastructure between the two countries. Both sides agreed to activate the bilateral synchronized 400 KW inter connection systems, as part of the ELIJLST (Egypt, Libya, Iraq, Jordan, Lebanon, Syria, Turkey) project. High level contacts between energy officials over the last year have articulated the desire to increase electricity exports to Iraq, mindful of chronic

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electricity shortfall there.

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Transmission Company  
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¶4. (SBU) On the margins of a conference on optimizing Turkish energy linkages to the EU, Turkish Transmission Company (TEIAS) Technical Chief Doruk Ozkuk stated that TEIAS was planning to complete 400 KV interconnection with Iraq. While the short border linkage already has 400 KV capacity, he noted that Turkey would have to invest in incremental domestic transmission between the border and the national grid from existing 154 KV. At the same time, however, Ozkuk emphasized that Turkey is focused on establishing synchronized connection to Europe's UCTE grid system in 2007-08. He said that the current amount of exports to Iraq was not problematic, but TEIAS was evaluating Kartet's request for additional capacity in light of technical requirements and UCTE regulations. TEIAS' overall planning is based on limitations on electricity exchange outside of Turkey and the company may allocate more of this capacity to existing connections with Georgia and Bulgaria and a prospective link with Greece. Ozkuk noted that there were substantial problems with the network on the Iraqi side. Because of Iraq's problems and because of the full commitment to joining the UCTE system, the "Med-Ring" or ELIJLST (Egypt, Libya, Iraq, Jordan, Lebanon, Syria, Turkey) project's momentum has slowed down.

¶5. (SBU) Murat Erenel, Advisor at EMRA, confirmed that the regulator and TEIAS were determined to foster competition in exports to Iraq by using a tender mechanism, noting that other companies were interested. He confirmed that TEIAS has the lead on preparing the tender, and EMRA would approve rules, procedures, and licenses. Erenel complained that TEIAS had domestic capacity constraints; for example, there were limitations on availability for hooking up new wind generation. He noted that TEIAS is focused on investment and testing to gain connection with the EU UCTE grid.

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The Regulator is the Obstacle

¶ 16. (SBU) Kartet's immediate problem is gaining renewal of its existing license (for export up to 300MW), which will expire on January 1, 2007. EMRA finally acknowledged the application by posting it on its web-site on December 5. According to current regulations intended to encourage competitors, the posting will remain until December 18. Kartet's Orhan Karadeniz claims EMRA is now concerned about the risk posed if a new application (qualified or unqualified) turns up, forcing TEIAS to immediately organize a tender. Karadeniz is hopeful that EMRA will still be able to process their license, so continuity of exports is not threatened. Karadeniz said that in the short term he was seeking to increase his generation capacity at Silopi to reduce reliance on the Turkish grid. He needs to gain assurance from Iraq that it can provide additional fuel oil to fire the incremental plant capacity. Moreover, the regulator keeping them on a one-year tether made new investment difficult. Karadeniz said that he intended to keep up the pressure of their legal claim against EMRA, asserting that they would have a right to liquidated damages.

¶ 17. (SBU) Karadeniz was gloomy about prospects for increasing exports. Karadeniz was resigned to go slower on his plans for significantly increasing capacity because both GOT and GOI were set

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on doing their own investment for increased transmission capacity. He claimed that it suited the GOI to increase its import of electricity from Iran. Finally, he noted that looming shortfalls in electricity capacity in Turkey reduced the interest of the GOT in supporting increasing exports. Recent floods have hurt voltage reliability and reduced grid capacity availability for export.

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Iraq has Equal or Greater Challenges  
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¶ 18. (SBU) Kartet's Karadeniz complained that the company had succeeded in putting in place the most difficult pieces of the contract on the Iraqi side. Kartet was fairly regularly receiving contractually required fuel oil (in partial payment for the electricity) by tankers from Bayji Refinery. Karadeniz said that the company had implemented an arrangement at Habur Gate whereby Kartet received a preferential allocation of 50-100 tankers per day each way to service the Silopi Plant (just across the border). He also said that Iraq had reallocated some of its budget for purchasing electricity from Iran to Kartet. The Kartet rep said that he had held discussions with the Government of Iraq on considering partial payment in the form of oil/gas or oil/gas rights in exchange for the larger potential 1200 MW delivery. He said the Iraqi side had made demarches to Turkey to move forward on implementation of the Kartet contract. Karadeniz said that he placed a lot of importance on a scheduled visit (unfortunately delayed because his deputy was kidnapped in Baghdad) of the Iraqi Minister of Electricity to establish the way forward.

¶ 19. (SBU) COMMENT: EMRA's insistence on a competitive tender process has some legitimacy in theory. However, EMRA and TEIAS have been unable to turn up serious competitors and/or fashion a competitive tender process. We will continue to press Turkish Government officials for implementation of increased exports to Iraq. We are not in a position to be able to assess all aspects of what Karadeniz admits is a "special deal", but Kartet is the only firm which was willing to execute this deal and persevere at great difficulty in delivering some badly needed electricity to northern Iraq.

Wilson